

Message Text

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DRAFTED BY EUR/EE:EHURWITZ:EB/IFD/OMA:GEWOLFE

APPROVED BY E MR. CASEY

L - FAKWIATEK

L - GHALDRICH

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EUR - JAARMITAGE

EB - SWEINTRAUB

TREAS:JBENNETT

S/S: MR. GAMMON

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FM SECSTATE WASHDC

TO AMEMBASSY PRAGUE

C O N F I D E N T I A L STATE 235521

E.O. 11652:N/A

TAGS: EFIN, CZ, L/C

SUBJECT: CLAIMS AND FINANCIAL NEGOTIATIONS

1. FOLLOWING ARE PROPOSALS ON CLAIMS PAYMENTS SCHEDULE, SURPLUS PROPERTY DEBT, AND US BLOCKED ACCOUNTS IN CZECHOSLOVAKIA TO BE CONVEYED TO CZECHOSLOVAK SIDE. PROPOSALS REPRESENT EXTENT TO WHICH WE ARE PREPARED TO ACCOMMODATE GOC ON THESE ISSUES IN ORDER TO REACH PACKAGE SETTLEMENT.

A. CLAIMS PAYMENT SCHEDULE: AFTER THE INITIAL PAYMENT OF \$2 MILLION, THE GOC WOULD MAKE TEN EQUAL ANNUAL PAYMENTS. IF, IN ANY YEAR, SIX PERCENT OF CZECHOSLOVAK EXPORTS TO THE US EXCEED THE SCHEDULED ANNUAL PAYMENT, THE SUBSEQUENT

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PAYMENT WOULD EQUAL SIX PERCENT OF CZECH EXPORTS TO THE US

IN THAT YEAR.

B. SURPLUS PROPERTY DEBT: THE GOC WOULD PAY THE PRINCIPAL IN DOLLARS WITHIN 30 DAYS OF ENTRY INTO FORCE OF THE AGREEMENT. PAST DUE INTEREST WOULD BE DEPOSITED INTO A DOLLAR ACCOUNT IN CZECHOSLOVAKIA FOR THE CREDIT OF THE USG. SIMPLE INTEREST WOULD BE COMPUTED ON THE SUMS IN THE ACCOUNT AT THE RATE OF TWO AND THREE EIGHTS PERCENT PER ANNUM AND PAID ANNUALLY TO THE USG. FOR A PERIOD OF FOUR YEARS THE USG WOULD MAKE NO WITHDRAWALS FROM THIS ACCOUNT EXCEPT FOR THE PURPOSE OF EXCHANGING THE DOLLARS FOR CZECHOSLOVAK CROWNS TO BE USED FOR ANY OFFICIAL USG PURPOSE. THE APPLICABLE EXCHANGE RATE FROM DOLLARS TO CROWNS WOULD BE THE MOST FAVORABLE TO THE US OF ANY RATE OR CROSS-RATE WHICH HAD BEEN ESTABLISHED BY THE GOC DURING THE YEAR PRECEDING THE DATE OF EXCHANGE, PROVIDED THAT THE RATE BE NO LESS FAVORABLE TO THE US THAN 11.12 CROWNS TO THE DOLLAR. FOUR YEARS AFTER ENTRY INTO FORCE OF THE AGREEMENT, ANY SUMS REMAINING IN THIS ACCOUNT WOULD BE PAID IN DOLLARS TO THE USG.

C. BLOCKED ACCOUNTS: WE WOULD ACCEPT THESE FUNDS IN CROWNS WITH THE STIPULATION THAT THE CROWNS COULD BE USED FOR ANY OFFICIAL USG PURPOSE. FYI: IT IS EXPECTED THAT THE FUNDS IN THE BLOCKED ACCOUNTS WOULD BE EXPENDED BEFORE MAKING ANY WITHDRAWALS FROM THE SURPLUS PROPERTY INTEREST ACCOUNT FOR CONVERSION INTO CROWNS (SEE ABOVE). WE ESTIMATE THAT CROWNS IN THE BLOCKED ACCOUNTS WOULD FUND NORMAL EMBASSY LOCAL CURRENCY EXPENSES FOR ABOUT THREE YEARS. END FYI.

2. QUESTION ARISES AS TO BEST WAY OF PRESENTING POSITIONS IN PARA ONE TO GOC. IF THEY ARE CONVEYED AT FORMAL NEGOTIATING SESSION WITHOUT PRESENCE OF DEPARTMENT LEGAL EXPERT KWIA TEK, CZECHOSLOVAKS MAY REGARD THEM AS LESS THAN FIRM POSITION. ON THE OTHER HAND, IF THEY ARE FIRST BROACHED AFTER ARRIVAL OF KWIA TEK, CZECH DELAY IN MAKING RESPONSE COULD NECESSITATE KWIA TEK'S WAITING IN PRAGUE FOR UNDESIRABLY LONG PERIOD. WE BELIEVE BEST SOLUTION WOULD BE FOR EMBASSY TO PRESENT PROPOSALS IN PARA ONE
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TO GOC INFORMALLY THROUGH CZECH NEGOTIATOR ZANTOVSKY. EMBASSY WOULD MAKE POINT THAT THESE POSITIONS DEVELOPED THROUGH LONG GIVE-AND-TAKE WITHIN USG AND REPRESENT SERIOUS CONCESSIONS INTENDED TO BRING NEGOTIATIONS TO AN EARLY CONCLUSION. EMBASSY WOULD ALSO INFORM CZECHS THAT KWIA TEK READY TO COME TO PRAGUE TO WORK OUT DRAFT LANGUAGE AT SUCH TIME AS GOC PREPARED TO CONDUCT NEGOTIATIONS ALONG ABOVE LINES. WOULD APPRECIATE EMBASSY'S COMMENTS ON THIS

PROCEDURE. RUSH

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